

Memorandum

To: Panel Members Date: June 26, 2003

From: Diana Torres, Manager
Peter DeMauro, General Counsel Analyst: J. Davey

Subject: One-Step Agreement for **Recot Inc., d.b.a. Frito-Lay Inc.**
(www.fritolay.com)

CONTRACTOR:

- Training Project Profile: Retraining: Companies with Out-of-State Competition
- Legislative Priorities: Moving to a High Performance Workplace
- Type of Industry: Manufacturing
- Repeat Contractor: Yes
- Contractor's Full Time Employees:
 - Company Wide: 100,000
 - In California: 4,000
- Fringe Benefits: Yes
- Union Representation: No
- Name and Local Number of Union representing workers to be Trained: N/A

CONTRACT:

- Program Costs: \$511,420
- Substantial Contribution: \$153,426
- Total ETP Funding: \$357,994
- In-Kind Contribution: \$616,896
- Reimbursement Method: Fixed-Fee
- County(ies) Served: San Bernardino
- Duration of Agreement: 24 Months

SUBCONTRACTORS:

All training and administration will be conducted by Recot Inc., d.b.a. Frito-Lay Inc. personnel.

THIRD PARTY SERVICES:

The applicant states that consultant services have not and will not be used.

PRIOR PROJECTS:

The following are completed project statistics for ETP Agreements with this Contractor within the last five years:

Agreement No.	Location (City)	Term	Agreement Amount	Amount Earned	% Earned
ET7-0020	Rancho Cucamonga	09/06/96 – 09/05/98	\$202,472	\$8,840	4%
ET8-0614	Visalia	12/01/97 – 08/31/99	\$125,760	\$97,256	77%
ET9-1018	Modesto	04/05/99 – 04/04/01	\$186,336	\$89,360	48%
ET01-0197	Rancho Cucamonga	12/18/00 – 12/17/02	\$445,736	\$363,816	82%

ET7-0020: During 1997, the Rancho Cucamonga facility underwent several unforeseen changes, including significant technological upgrades and site expansion. These events delayed some training modules and rendered other training modules unnecessary. Also, trainees in the sales group were restructured, which resulted in reduced trainee numbers and a delay of their training beyond the term. In addition, training tracking and documentation were poorly executed. However, some training was eventually completed, but could not be compensated. As a result, the Contractor invoiced only for ETP funds that had been earned totaling \$8,840 or 4 percent of the amount encumbered.

ET9-1018: In the final Monitoring Report, dated 6/1/01, the Contractor stated that the administrative subcontractor did not have sufficient knowledge of ETP Regulations and policies; therefore, the subcontractor did not optimally plan the training. As a result, the Contractor trained and retained fewer trainees than planned.

ET01-0197: (Rancho Cucamonga) Frito-Lay submitted the closeout invoice on 3/12/03. The final reimbursement was issued on 5/7/03; total number of retentions is 458 trainees (82 percent).

ACTIVE PROJECTS:

The following are current project statistics:

Agreement No.	Term	Agreement Amount	Number To be Retained	Number Enrolled	Number Completed Training	Number retained for 90 days
ET01-0365	06/30/01 – 06/29/03	\$160,810	165	192	120	0
ET02-0144	10/08/01 – 10/07/03	\$414,440	367	497	27	27
ET02-0185	11/26/01 – 11/25/03	\$109,944	83	75	0	0
ET02-0204	12/24/01 – 12/23/03	\$420,422	516	419	126	126
ET02-0207	12/24/01 – 12/23/03	\$162,340	145	147	31	31
ET02-0348	06/03/02 – 06/02/04	\$226,550	302	280	12	0

ET01-0365: (La Mirada: 16 Southern California distribution centers) According to the most recent Monitoring Report, 120 trainees (98 percent) have completed training and are in the 90-day retention period.

ET02-0144: (Bakersfield) According to the most recent Monitoring Report, 27 trainees (6 percent) have completed training and the 90-day retention period with 2 months of training remaining.

ET02-0185: (Manteca: 10 Northern California distribution centers) 88 percent of the total number to be retained have been enrolled.

ET02-0204: (Modesto) According to the most recent Monitoring Report, 126 trainees (25 percent) have completed training and the 90-day retention period. An additional 200 trainees were expected to complete training by the end of April.

ET02-0207: (Visalia) According to the most recent Monitoring Report, 147 trainees (101 percent) have enrolled in training and 31 (20 percent) trainees have completed the 90-day retention period.

ET02-0348: (Irvine) According to the most Recent Monitoring report, 12 trainees have completed training and are in the 90-day retention period.

NARRATIVE:

This is the 11th Frito-Lay project within the last five years.

Recot Inc., d.b.a. Frito-Lay Inc., has 100,000 employees worldwide, 4,000 in California in various offices, plants, and distribution centers. Frito-Lay produces and distributes a wide range of snack foods, including Lays Potato Chips, Doritos, Tostitos, Fritos, Sun Chips, Ruffles, and Rold Gold Pretzels.

Title 22, California Code of Regulations, Section 4416 (b), Out-of-State Competition, states in part that “a company engaged in manufacturing is deemed to meet the out-of-state competition requirement for purposes of Panel funding if that company meets the definition of Division D, Manufacturing as contained in the Standard Industrial Classification (SIC) Manual.” As a manufacturer of food products, Recot Inc., d.b.a. Frito-Lay Inc., meets the definition of having out-of-state competition.

NARRATIVE: (continued)

This Agreement was first brought to the Panel at the April 2003 Panel Meeting. The Panel took no action on the proposal and asked that Frito-Lay return with a more in-depth explanation of how the proposed training is supplemental.

Frito-Lay moved into Rancho Cucamonga location in 1970 and the facility now includes 10 production lines making only corn-based snack products, employing over 600 people. Company representatives state that in 1992, Rancho Cucamonga produced 43 million pounds of product. Since then, the output has more than doubled to over 90 million pounds of product in 2000.

To ensure its continued success as a production facility in the competitive food processing business, it is essential for the company to implement new strategies and maintain a highly skilled and efficient work force. The new strategies include empowering the workforce with ownership of the production process so they can be decision-makers and problem-solvers. The best way to achieve company goals and implement new strategies is through employee training. The beginning of this long-term plan to provide the High Performance Workplace skills began in the previous ETP-funded Agreement at the Rancho Cucamonga facility.

In the previous Agreement, Frito-Lay provided training in Business Skills, Continuous Improvement, and Manufacturing Skills. The training introduced team members to the idea of a performance culture by providing them with a general overview of business concepts, reading reports, and setting short-term goals. Each team was instructed on basic business skills in order to achieve a Level 1 to 2 rating. These skills provided frontline workers basic Business Skills, called "Core 5" training, that enabled them to understand business basics, set goals, and handle greater responsibility. Continuous Improvement provided retrainees the basics of Building Individual Team Skills. Each employee had to understand how to contribute to the company's team effort to create a high performance workplace. Manufacturing Skills training was job specific training that demonstrated to retrainees how to assume their job responsibilities and then taught them how their jobs fit into the manufacturing effort as a whole. Upon completion of training, each worker gained an understanding of the entire manufacturing process and was able to utilize proper techniques on the job. Results from the training were that Frito-Lay decreased customer complaints, increased production, cut cost, decreased downtime, and maintained better safety records.

In contrast to the first Agreement where training concentrated on basic concepts and short-term goals, in this proposal Frito-Lay wants to complete the initial training goals and continue building on the foundation begun in the previous Agreement. By providing training in the same skill areas, but at higher skill levels, this proposal will focus on the skills and knowledge to equip team members to weigh key performance measures of cost, quality, service and people in order to make sound business decisions. The new "Core 5" Business Skills training will provide trainees the skills to set long-term goals, create business plans, and develop succession plans. The new Continuous Improvement Skills will provide trainees the skills in best practices, in-depth analysis for solving problems, leadership, and team development and assessment. Manufacturing Skills training will focus on performance based skills for each of the various job specific occupations: Operators, Packers, Maintenance, Sanitation, and Resource (Management/Supervisory) personnel. Upon completion of this training, trainees will receive certification on their equipment and be considered experts on their equipment.

NARRATIVE: (continued)

Whereas in the first Agreement, Level 1 and 2 trainees learned theories and concepts. In this proposal, Level 3 and 4 trainees will learn advanced techniques and practical applications of the concepts and theories. The ultimate goal of training will be the attainment of Levels 3 to 4, high performance, self-sufficient teams that are capable of consistent and improved results. Teams will move away from just making decisions to measuring the impact decisions have on key performance measures of cost, quality, service, and people. Teams not only evaluate return on investment at the team level, but also how decisions impact other departments, the Rancho Cucamonga facility, and the region.

Both the previous ETP Agreement and this proposed Agreement are part of a long-term implementation plan. All the levels of training could not have been achieved through a single 21 month Agreement. Therefore, Frito-Lay proposes to train its employees in the next level of the implementation plan. Under this proposal 562 full-time Handlers, Cooks, Crewing Coordinators, Drivers, Hostlers, Operators, Packers, and other production and Management/Supervisory personnel will receive from 60 to 150 hours of class/lab training in Business Skills, Continuous Improvement, and Manufacturing Skills. The curriculum is formatted in a menu-style based on the needs of each trainee. Qualified in-house instructors will provide all training and Frito-Lay will provide its own project administration.

Supplemental Nature of Training

Recent, non-ETP-funded training includes environmental awareness, safety training, key performance measures, new employee orientation, and powered industrial trucks. This training was typically done on a one-on-one or small group basis. The yearly training budget for non-ETP funded training prior to its most recent ETP Agreement was \$500,000. The yearly training budget for non-ETP funded training during its most recent ETP Agreement was \$700,000. The Rancho Cucamonga facility is currently budgeted to spend \$846,246 on the above non-ETP funded training this year. The proposed ETP-funded training will not duplicate or displace this training or previously funded ETP training. Frito-Lay states the proposed training would not occur in the same way, nor be delivered to as many retrainees, without ETP funding. Frito-Lay will continue to offer its employees additional training beyond the term of the Agreement.

Frito Lay's long-term strategic plan includes assessments and evaluations during the implementation phase of the second ETP Agreement. Based on results of the internal and external assessments, additional and follow-up training will be identified, and provided at Frito-Lay's expense.

In-Kind Contribution

The estimated wages of employees paid during training will be approximately \$616,896.

Substantial Contribution

Title 22, California Code of Regulations, Section 4410(a) states in part that "A substantial contribution of not less than 30 percent of the total Panel training and administrative costs, exclusive of in-kind contributions and/or any other special contributions required by Panel, shall be imposed on any employer for retraining at a facility which previously benefited, directly or indirectly, from Panel funding under at least two prior Panel agreements at the same facility in the amount of \$250,000 or more." Additionally, the substantial contribution is applied only if both prior Agreements were within the last five years.

NARRATIVE: (continued)

A substantial contribution has been applied to this Agreement, because Recot Inc., d.b.a. Frito-Lay, Inc., has benefited from Panel funding under at least two prior Panel Agreements at the same facility in the amount of \$250,000 or more.

Frontline Workers

Five hundred nineteen (519) retrainees in this proposal are frontline workers, as defined under Title 22, California Code of Regulations, Section 4400(ee). The remaining 43 retrainees, titled Resource, in this proposal are identified as Managers and Supervisors and represent 7.7 percent of the trainees.

PROPOSED ACTION:

Staff recommends that the Panel approve this One-Step Agreement if funds are available and the project meets Panel priorities. This recommendation is based on Recot Inc., d.b.a. Frito-Lay Inc.'s stated need to provide its employees with high performance workplace skills to enhance the company's ability to remain competitive and to grow.

TRAINING PLAN:

Grp/ Trainee Type	Types of Training:	No. Retain	No. Class/Lab Videocnf. Hrs	No. CBT Hrs	No. SOST Hrs.	Cost per Trainee	Hourly Wage after 90 days
Job Number 1 Retrainees	Business Skills, Continuous Improvement Skills, Manufacturing Skills	562	60 –150	0	0	\$637	\$12.19 - \$28.00
					<u>Range of Hourly Wages</u> \$12.19 - \$28.00		
					<u>Prevalent Hourly Wage</u> \$17.00		
					<u>Average Cost per Trainee</u> \$637		
<u>Health Benefit used to meet ETP minimum wage:</u> Although the company pays health benefits for its employees, the hourly contribution is not being used to meet ETP minimum wage requirements.					<u>Turnover Rate</u> 5.5%	<u>% of Mgrs & Supervisors to be trained:</u> 7.7%	

Menu Curriculum

Class/Lab Hours	Trainees will receive any of the following:
Job Number 1	Business Skills
60 – 150	<ul style="list-style-type: none"> • Business Planning Process for Level 3 & 4 Teams • Advanced Business Practices 1 for Level 3 & 4 Teams (Site & Department Focus) • Advanced Business Practices 2 for Level 3 & 4 Teams (Site & Department Focus) • Performance Process for Level 3 & 4 Teams • Advanced Business Practices 3 • Flight Plan Development Training • Goal Setting / Return on Investment (ROI) • Running Right for Teams • Winning with Diversity • Return on Investment / ROI Action Plan
	Continuous Improvement Skills
	<ul style="list-style-type: none"> • Best Practice / Dimension Expert Training • Building Individual Team Skills for Level 3 & 4 Teams • Deep Dive Analysis • Continuous Improvement and Level 4 Teams • Continuous Improvement Assessment Process (CIAP) Teams • Conflict Training • Facilitation Skills Training • Frontline Leadership Training • Leadership Development Training • Leading Continuous Improvement (CI) Workshop • Leading Teams for Level 3 & 4 Teams • Team Assessment for Level 3 & 4 Teams • Team Development Plan Workshop • Team Assessor/Mentor Training • Walking the Talk Training • Train the Trainer Training

Menu Curriculum (continued)

Class/Lab Hours

Trainees will receive any of the following:

Manufacturing Skills

- Fried Cheetos Process Analysis Training
- Inventory Control System Handheld Training
- Maintenance Process Analysis Training
- Resource Process Training
- Operator Technical Certification
- Packer Process Analysis Training
- Packaging Machine Operator Process Analysis Training
- Quality Control Process Analysis Training
- Sanitation Process Analysis Training
- Tortilla Chip Process Analysis Training
- Warehouse Process Analysis Training